

ITEL**Itel Rail Corporation**

550 California Street
 San Francisco, CA 94104
 (415) 984-4200

July 10, 1992

RECORDATION NO. **17893** FILED 1425

JUL 16 1992 - 2 35 PM

INTERSTATE COMMERCE COMMISSION

JUL 16 2 20 PM '92
 MOTOR OPERATING UNIT

Hon. Sidney L. Strickland, Jr., Esq.
 Secretary
 Interstate Commerce Commission
 Washington, D.C. 20423

Re: Security Agreement

Dear Mr. Strickland:

On behalf of Itel Rail Corporation, the above instrument, in ^{Two} ~~three~~ (3) counterparts, is hereby submitted for filing and recording pursuant to 49 U.S.C. Section 11303(a), along with the \$16 recordation fee.

Please record the subject Security Agreement dated as of July 1, 1992, between 4 Rails, Inc. and McCloud River Railroad Company, under a new recordation number.

The parties to the above instrument are listed below:

4 Rails Inc. (Debtor)
 P. O. Box 1500
 McCloud, California 96057

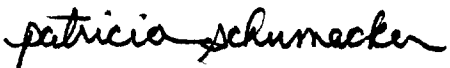
McCloud River Railroad Company (Secured Party)
 550 California Street
 San Francisco, California 94104

This Security Agreement grants to the Secured Party a security interest in (i) three (3) locomotives; namely one SD 38, Builder's Plate No. 34882, marked McCloud No. 38; one SD 38-2, Builder's Plate No. 74623-1, marked McCloud No. 39; and one GP 7, Builder's Plate No. 7012-1, marked Alaska Hulk No. 1810; and (ii) certain rolling stock and other maintenance equipment identified on Schedule 1 attached thereto.

Hon. Sidney L. Strickland, Jr., Esq.
July 10, 1992
Page Two

Please return to the undersigned the stamped counterparts not required for filing purposes, together with the ICC fee receipt and acknowledgment letter.

Very truly yours,

A handwritten signature in cursive script that reads "patricia schumacker". The signature is written in black ink and is positioned above the printed name and title.

Patricia Schumacker
Legal Assistant

Enclosures

Interstate Commerce Commission
Washington, D.C. 20423

7/17/92

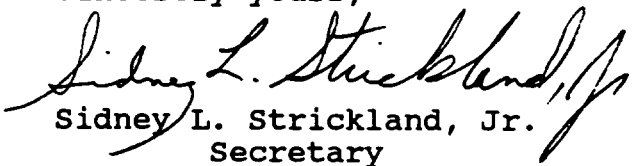
OFFICE OF THE SECRETARY

Patricia Schumacker
Legal Assistant
Itel Rail Corporation
550 California Street
San Francisco, Calif. 94104

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 7/16/92 at 2:35pm, and assigned recordation number(s). 17893

Sincerely yours,


Sidney L. Strickland, Jr.
Secretary

47893

RECORDATION NO. _____ FILED 1425

JUL 16 1992 - 2 35 PM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

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1. 4 RAILS, INC., a California corporation, hereinafter referred to as "Debtor," hereby grants to McCLOUD RIVER RAILROAD COMPANY, a California corporation, hereinafter referred to as "Secured Party," a continuing security interest in all personal property, goods, general intangibles, insurance policies, machinery, equipment, locomotives, railroad cars, rolling stock, tools, furniture, fixtures, leasehold improvements, inventory, accounts receivable, timber, rails, ties and cash now owned or hereafter acquired by Debtor, and all additions, substitutions, accessions, proceeds and products of the foregoing, including, without limitation, the property described on Exhibit "A" attached hereto and incorporated herein. Such property shall hereinafter be referred to as the "Collateral."

2. The security interest hereby granted is given to further secure the payment of (i) all amounts due under that certain Secured Note (the "Promissory Note"), in the original principal sum of Two Hundred Thousand Dollars (\$200,000.00), dated as of July 1, 1992, naming Debtor as "Maker" and Secured Party as "Payee"; (ii) all expenses, including attorneys' fees and costs, incurred or paid by Secured Party to preserve said Collateral or to enforce any rights of Secured Party under this Security Agreement or the Promissory Note; and (iii) all obligations of Debtor under all other documents and agreements delivered pursuant to that certain Asset Purchase Agreement dated as of February 1, 1992 between Debtor, Jeff E. Forbis and W. Verline Forbis and Secured Party, as amended pursuant to that certain First Amendment dated as of July 1, 1992, of every kind and description, due or to become due, whether absolute or contingent, now existing or hereafter incurred, including amounts that would become due but for operation of the

automatic stay under Section 362(a) of the Bankruptcy Code 11 USC Section 362(a) (collectively, the "Obligations"). The Promissory Note is also secured by Deeds of Trust on certain real property owned by Debtor in Shasta County and Siskiyou County, California (the "Deeds of Trust").

3. Debtor hereby represents, warrants and covenants that it will:

(a) Maintain the Collateral free and clear of all security interests, liens and encumbrances except those heretofore granted to Timberline Community Bank pursuant to those certain Commercial Security Agreements dated June 30, 1992 with respect to Loan Numbers 00161 and 00162 and those expressly approved in advance, in writing, by Secured Party;

(b) Defend title to the Collateral and the security interest herein granted, against all claims and demands of any person;

(c) Insure the Collateral with an insurance company acceptable to Secured Party in an amount not less than Two Hundred Thousand Dollars (\$200,000.00), at its own expense, against loss or damage by fire, theft, burglary, pilferage or other casualty loss, and such other hazards as should be reasonably insured against, and maintain, at its own expense, liability insurance with an insurance company acceptable to Secured Party in an amount not less than Five Million Dollars (\$5,000,000) with no more than a Fifty Thousand Dollar (\$50,000) deductible, in each case naming Secured Party as an additional insured;

(d) Indemnify, defend and save Secured Party harmless from all loss, costs, damages, liability or expense, including reasonable attorney's fees, which may be sustained or incurred by Secured Party to defend or protect the security interest, or the priority thereof, or to enforce the payment of the Obligations secured hereby, or to prosecute or defend any action or proceeding concerning any matter arising in connection with this Security Agreement or the Deeds of Trust.

(e) Not sell, assign, mortgage, lease or otherwise

dispose of any of the Collateral, or agree to do any of the foregoing, without first obtaining the prior written consent of Secured Party.

(f) Keep the Collateral and all parts thereof separate and identifiable from other property owned by Debtor or located on the same premises as the Collateral.

4. Debtor shall be considered to be in default hereunder if it:

(a) Fails to pay, after any applicable cure period, any payment under the Promissory Note given herewith; or

(b) Fails to perform, after any applicable cure period, any of the covenants, conditions or terms set forth in the Promissory Note, this Security Agreement, the Deeds of Trust or the other Obligations; or

(c) Commits or suffers any other event of default under the Promissory Note.

5. Upon Debtor's default hereunder, all the Obligations secured hereby, including the Promissory Note, shall, at the option of Secured Party, and without notice or demand, become immediately due and payable. Thereafter, Secured Party shall have all the rights and remedies of a secured party as set forth under the Uniform Commercial Code and, in particular, shall have the right to:

(a) Immediate possession of the Collateral, or any portion thereof, for purposes of safekeeping and/or storage, and Debtor agrees to make said Collateral available at a place convenient to Secured Party;

(b) Sell and dispose of all or any part of the Collateral, at public auction or at private sale, for cash or for credit, upon such terms as it may receive after giving the notice required by the Uniform Commercial Code of the State of California, crediting Debtor with the amounts of any such sale only when the cash price thereof has actually been received by Secured Party. The requirement of Secured Party to notify Debtor of any such sale or disposition shall be deemed complete upon the mailing of such

notice, postage prepaid, to Debtor at the address set forth herein, at least five (5) days prior to the time of such sale or other disposition;

(c) Sell said Collateral in any order, priority or lot as it may, in its sole discretion, designate. None of the Collateral to be sold need be in view of those attending the sale, and Secured Party need not take or have the same in its physical possession as a condition to selling or otherwise disposing thereof;

(d) Recover from the proceeds, all expenses of retaking, holding, preparing for sale, and selling, said Collateral, including, without limitation, reasonable attorney's fees and other legal expenses and disbursements.

6. No delay or failure on the part of Secured Party in exercising any right, privilege, remedy or option hereunder shall be construed as a waiver thereof, and no waiver whatsoever shall be valid unless it is in writing and signed by the Secured Party, and then only to the extent therein set forth.

Secured Party may have and exercise any one or all of the foregoing rights or remedies in addition to any one or all of the rights and remedies provided for in the Promissory Note, the Deeds of Trust or in any other contract between itself and Debtor, in whatever order and/or priority, successively, alternatively or concurrently, and/or in such manner as it may, in its sole discretion, direct. All of Secured Party's rights and remedies are cumulative.

7. Debtor agrees to execute such financing statements and/or other instruments necessary to comply with the requirements of the Uniform Commercial Code and the Interstate Commerce Act, in form(s) satisfactory to Secured Party and its counsel, and to do all other things and execute all other documents which may be required or deemed necessary to effect or continue Secured Party's interest in the Collateral.

8. Secured Party shall execute and deliver to Debtor, such termination statements and other documents as may be required under

the Uniform Commercial Code, or otherwise, to reflect the making of the final payment due under the Promissory Note.

9. All of the rights, privileges, remedies and options given to each party hereunder shall inure to the benefit of the heirs, successors and assigns of each, and all terms, conditions, promises, covenants, provisions and warranties of this Agreement shall be binding upon the heirs, successors and assigns of each party.

IN WITNESS WHEREOF, the parties have executed this Security Agreement as of this 1st day of July, 1992.

DEBTOR:

4 RAILS, INC., a California corporation

By

Jeff E. Forbis
JEFF FORBIS, President

Address:

P.O. Box 1500
McCloud, CA 96057

SECURED PARTY:

McCLOUD RIVER RAILROAD COMPANY,
a California corporation

By

William J. Herndon
WILLIAM J. HERNDON, Chairman
of the Board

Address:

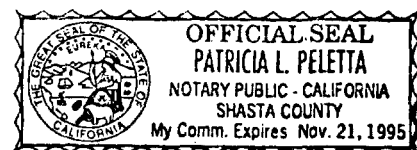
550 California Street
San Francisco, CA 94104

STATE OF CALIFORNIA)
COUNTY OF Shasta) ss.

On this 9th day of July, in the year 1992, before me, the undersigned, a Notary Public in and for said County and State, personally appeared JEFF FORBIS, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Patricia L. Peletta



NOTARY PUBLIC

STATE OF CALIFORNIA)
COUNTY OF SAN FRANCISCO) ss.

On this 10th day of July, in the year 1992, before me, the undersigned, a Notary Public in and for said County and State, personally appeared WILLIAM J. HERNDON, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

P. M. O'Grady
NOTARY PUBLIC

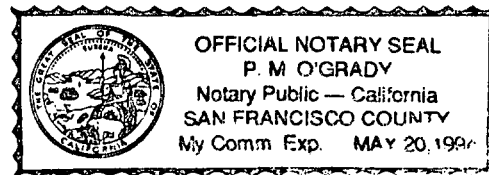


EXHIBIT "A"

All personal property, goods, general intangibles, insurance policies, machinery, equipment, locomotives, railroad cars, rolling stock, tools, furniture, fixtures, leasehold improvements, inventory, accounts receivable, timber, rails, ties and cash now owned or hereafter acquired by Debtor and all additions, substitutions, accessions, proceeds and products of the foregoing, including, without limitation, the property described on Schedule "1" attached hereto and incorporated herein.

SCHEDULE 1

Locomotives

One SD 38	Builder's Plate No. 34882	McCloud No. 38
One SD 38-2	Builder's Plate No. 74623-1	McCloud No. 39
One GP 7	Builder's Plate No. 7012-1	Alaska Hulk No. 1810

Maintenance of Way Machines

Ballast Regulator
Tamper
Trackliner
Burro Crane
60 Ton Crane
Rail Lifting Machine
Rail Saw
Rail Drill
Rail Jacks
Other Hand Tools

Rolling Stock

Caboose No. 101
Caboose No. 102
Wooden Caboose (No Number)
(6) Non-Interchangeable Maintenance of Way Flatcars
(1) Non-Interchangeable Sand Car
(1) Set of Fire Service Water Cars
Box Plow - Wooden
Jordan Spreader
(6) Ballast Dumping Cars

Track Repair Inventory

Ties, rail and miscellaneous parts as exist on February 1, 1992

Railcar and Locomotive Parts Inventory

Parts as exist on February 1, 1992

Shop Tools

Arc welder, stud gun, wheel turning machine, lathe, plasma cutter, steam cleaner, fork lift, small parts cleaning bins, and hand tools and instruments. All cranes, hoists and air equipment as are attached to shop building.

Office Inventories and Furnishings

Desks, chairs, filing cabinets, computer network, copy and fax machines, postage meter machine, telephones, miscellaneous office supplies.

Radio Equipment

Base and Repeater Stations

Mobiles

Portables

Historical

All memorabilia including photographs, clocks, bell and written materials.